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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 002001

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STATE PASS AIT/W

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SUBJECT: SPECIAL DEFENSE BUDGET: MOVEMENT IN MID-MAY?

Classified By: AIT Director Douglas Paal, Reason: 1.4 (B/D)

1. (C) Summary: Ruling and opposition party officials express cautious optimism that the Legislative Yuan (LY) will take action on Special Defense Procurement Budget shortly after the May 14 National Assembly election. President Chen Shui-bian will try to meet with the two Pan-Blue leaders, either separately or together, between May 14 and May 17, when the LY's Procedure Committee is expected to move the budget bill into the defense committee. LY President Wang Jin-pyng stated publicly on May 2 that the KMT is facing growing U.S. pressure to move the budget, and suggested that if the LY failed to act by the end of May, the LY might reconvene in special session in July or August to complete work on the bill. KMT and PFP officials insist that they will cooperate with the government on the package as long as President Chen refrains from publicly condemning their leaders over recent contacts with Beijing. National Security Council (NSC) officials insist that the President will do everything in his power to maintain a positive atmosphere to allow the Pan-Blue to come on board. End Summary.

Focus on May 17

2. (C) Ruling and opposition officials tell AIT privately that the May 17 LY Procedure Committee meeting will be the key indicator over whether the Special Defense Procurement Budget will be acted upon in a timely manner. NSC Deputy Secretary General Henry Ko told AIT that the PFP has promised

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to vote with the government on May 17, but asked that the Democratic Progressive Party (DPP) not press for actions any earlier. PFP members cited James Soong's early May visit to the Mainland and threats by the anti-defense budget Democratic Action Alliance to denounce the PFP for reversing its stance on the eve of the National Assembly vote. PFP Policy Chief Vincent Chang confirmed the tacit agreement, adding that as long as President Chen does not condemn Soong's meetings in Beijing, the PFP is prepared to cooperate with the government. The NSC's Ko told AIT that Chen is cognizant of the need to maintain cordial relations with the two opposition leaders in order to secure cooperation on the budget. Ko said that the NSC will soon initiate contacts with aides to both Lien and Soong about organizing a meeting, ideally on May 15.

3. (C) KMT officials have sent mixed messages over the party's intentions. KMT LY Caucus Leader Chen Chieh, a member of KMT Chairman Lien Chan's delegation to the Mainland, warned on May 2 that the KMT would not cooperate with the DPP on the budget to protest the DPP's "two-faced" approach to the Lien visit. However, LY Caucus Deputy Secretary General Cho Po-yuan told reporters on April 30 that

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Lien's agreement with PRC leader Hu Jintao to seek an easing of cross-Straits military tensions would not impact on the KMT's willingness to support defense procurement. Cho said that the KMT has concerns over the Special Defense Budget as currently structured, and looks forward to working with the DPP on ways to modify the package.

4. (C) On May 2, LY President Wang Jin-pyng publicly committed the LY to early action, noting that Taipei was facing growing pressure from the U.S. Wang stated that he believed a budget priced in the 360 to 370 billion NTD range would stand a good chance for passage, but noted the need for further inter-party talks on the details. Wang noted that if the LY does not have time to complete the budget by the May 31 recess, a special session may be convened in July or August to complete action. Ranking DPP Legislator Hong Chi-chang expressed skepticism that the LY could finish the bill in the late May time frame, but said that if all four parties committed to convening a summer session specifically to act on the Special Defense Budget, the USG could rest assured that the package would pass in some form.

Devils Still in the Details?

5. (C) Taiwan NSC officials tell AIT they are still contending with variables in the LY Defense Committee,

especially continued demands by PFP Co-Chair Lin Yu-fang to move the PAC-III Anti-Missile system to the regular budget cycle. NSC officials say they fully understand the USG's negative views on this proposal and would convey to the LY that this is not a viable option. NSC and Ministry of National Defense (MND) officials are also grappling with the proposal to lease, vice purchase, P-3C anti-submarine aircraft. A number of LY Defense Committee members have raised this option in the past in the belief that Taiwan will be able to procure the Multi-Mission Maritime Aircraft (MMA) within the next ten years. While Chen administration officials are skeptical of Taiwan's ability to secure MMA until well beyond ten years, MND Minister Lee Jye told the LY on May 2 that he would look into options for leasing the P-3C.

Comment: Light at the End of the Tunnel  
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16. (C) If relations between the President and the two opposition leaders, especially Lien, can weather the current friction over cross-Strait relations, we are cautiously optimistic that the LY will finally start taking concrete action on the Special Defense Budget. With the LY scheduled to go out of session on May 31, in order to allow the National Assembly to meet in early June, it may be difficult to secure final passage during the current session. However, a firm commitment to act on the budget during a special session would be a major step forward, as it would commit all parties to address the budget in a timely manner. AIT will continue to urge all parties to resist the temptation to posture over the budget and recent cross-Strait contacts, especially in the lead-up to May 17.

PAAL